

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

**Northern Hills Water and Sewer Company** :  
: **10-0298**  
**Proposed general increase in water and** :  
**sewer rates. (tariffs filed March 15, 2010)** :

**ORDER**

By the Commission:

**I. INTRODUCTION**

**A. Procedural History**

On March 15, 2010, Northern Hills Water and Sewer Company (“Northern Hills” or the “Company”) filed with the Illinois Commerce Commission (“Commission”) pursuant to Section 9-201 of the Public Utilities Act (220 ILCS 5/9-201) (“the Act”), tariff sheets wherein it proposed a general increase in water and sewer rates to be effective April 30, 2010. These tariff sheets, hereinafter referred to as “Filed Rate Schedule Sheets,” were identified as Ill.C.C. No. 1, Sixth Revised Sheet No. 1 and Ill.C.C. No. 2, Sixth Revised Sheet No. 1. On April 21, 2010, the Commission entered an Order suspending the Filed Rate Schedule Sheets to and including August 12, 2010. On July 28, 2010, the Commission resuspended the Filed Rate Schedule Sheets to and including February 12, 2011.

Notice of the proposed increase in water and sewer rates was posted and published in a newspaper of general circulation throughout the Company’s service area in accordance with the requirements of Section 9-201 of the Act and in accordance with the provisions of 83 Ill. Adm. Code 255. Notice of the filing was also sent to Northern Hills’ customers with the first billing after the filing.

Pursuant to notice as required by the law and the rules and regulations of the Commission, a prehearing conference was held in this matter on May 24, 2010, before a duly authorized Administrative Law Judge (“ALJ”) of the Commission at its offices in Chicago, Illinois. Thereafter it was continued to September 21, 2010, then to September 30, 2010 for hearing. At the hearing on September 30, 2010, the Company appeared by counsel and presented the testimony of Lena Georgiev, Regulatory Manager of the Atlantic and Midwest regions for Utilities, Inc. (“UI”) and its subsidiaries, including Northern Hills. Staff presented the testimony of Christopher Boggs, William R. Johnson, Mike Ostrander, Burma C. Jones and Janis Freetly, all of the Financial Analysis Division. No Petitions for Leave to Intervene were filed in this Docket. At the

conclusion of the hearing on September 30, 2010, this matter was marked “Heard and Taken.”

Northern Hills stated in its supplemental surrebuttal testimony that it elected not to oppose the final positions set in Staff’s rebuttal testimony. The Company determined not to contest certain issues in order to conserve resources and reduce uncertainty. This determination was not to be construed as an agreement by the Company or its affiliates that the record in the case required certain issues to be resolved in the same or similar manner in other cases of the Company or its affiliates. (NH Ex. 4.0 at 2). The Company and Staff therefore requested leave to waive the filing of post-trial briefs and also requested leave to file an agreed Draft Order for the ALJ’s consideration. The ALJ granted these requests. The Company prepared an agreed Draft Order to which Staff, after review and incorporation of suggested revisions, stated it had no objection.

### **B. The Company’s Service Areas and the Nature of its Operations**

Northern Hills provides water and sewer service to approximately 170 water customers and 180 sewer customers in Stephenson County, Illinois. It is a wholly-owned subsidiary of UI, which owns and operates approximately 81 water and/or wastewater systems in 16 different states. Water Service Corporation (“WSC”) manages the operations for all of UI’s water and sewer systems, including those of Northern Hills. WSC provides management, administration, engineering, accounting, billing, data processing, and regulatory services for the utility systems. WSC’s expenses are assigned directly to an operating utility, or they are allocated to one or more of the various operating utilities, pursuant to a formula that has been approved by the Commission. Northern Hills’ current water and sewer rate structure was approved in Docket 03-0402, April 7, 2004.

### **C. Test Year**

Northern Hills’ filing is based on a historical test year ending December 31, 2008, with *pro forma* adjustments for known and measurable changes. Staff did not challenge the reasonableness of using 2008 as a historical test year. The Commission concludes that the test year ending December 31, 2008, with adjustments for known and measurable changes, is appropriate for the purposes of this proceeding.

## **II. RATE BASE**

In its direct testimony, the Company presented evidence showing that the values of its original cost water and sewer rate bases were \$264,991 and \$1,029,849, respectively, after making *pro forma* adjustments to its original cost rate base for the test year ending December 31, 2008.

Staff proposed various adjustments to the Company’s *pro forma* rate base, including adjustments to plant in service, accumulated depreciation, deferred charges

and cash working capital. Staff's recommended adjustments are reflected in Appendix A - Water and Appendix B - Sewer, and can be summarized as follows:

- (a) Adjustments to reflect changes in accumulated depreciation, accumulated amortization of contributions in aid of construction and accumulated deferred income taxes through the date of the Company's *pro forma* plant additions in order to prevent a mismatch of 2008 accumulated depreciation with 2009 gross plant, resulting in an overstated water and sewer rate base.
- (b) Adjustments to remove the unamortized acquisition adjustments for both sewer and water plant consistent with the Commission's Orders in the Company's two most recent rate cases, Dockets 98-0045 and 03-0402.
- (c) Adjustments to remove deferred charges from sewer and water rate base, because the costs were not incurred in the test year.
- (d) Decreases to reflect the sewer and water working capital, which were calculated by the Company using the 1/8<sup>th</sup> method, to remove real estate taxes where payment is deferred for more than a year and to incorporate the effects of other Staff proposed adjustments to the Company's operating expenses.

With respect to depreciation expense for the test year ending December 31, 2008, the Company proposed to use the water and sewer depreciation rates approved by the Commission in Docket 03-0402. Mr. Johnson reviewed the Company's proposed water and sewer depreciation rates and proposed adjustments set forth in Staff Ex. 5.0, Schedules 5.1 and 5.2. The Company agreed with Staff's proposed water and sewer depreciation rate adjustments. The resulting annual water and sewer depreciation expense for the test year ending December 31, 2008 is reflected in Appendix A - Water and Appendix B - Sewer. Staff also recommended that the Commission direct the Company to confer with Staff within six months of the date of the Final Order in Docket 10-0110 (Whispering Hills Water Company) about the best way for UI to update and implement separate depreciation rates by primary account across its Illinois utilities. The Company agreed to Staff's proposal.

The Commission finds that the proposed water and sewer depreciation rates set forth in Staff Ex. 5.0, Schedules 5.1 and 5.2, are reasonable and should be approved.

The Company, in its supplemental surrebuttal testimony, stated that, for purposes of resolving the remaining issues in this case, the Company decided not to contest the final positions of Staff set forth in Staff's rebuttal testimony. (Staff Exs. 6.0., 7.0., 8.0, 8.0R and 9.0). The Company also stated its understanding that neither party will treat the record or resolution in this case as precedent for future cases of the Company or its affiliates, and that neither of them will argue, in any such future cases, that the same or a similar issue should be decided by the Commission in the same

manner on the grounds that the issue was resolved in such manner in this Docket, or that the Company agreed to such a resolution in this Docket. (NH Ex. 4.0 at 1).

The Commission finds that the adjustments to rate base proposed in Staff's exhibits are supported by the evidence, are reasonable, and should be adopted. Upon giving effect to these adjustments, the rate base may be summarized as follows:

**A. Northern Hills Approved Rate Base**

	<u>Water</u>	<u>Sewer</u>
Gross Plant in Service	\$547,237	\$603,151
Less: Accumulated Depreciation and Amortization	<u>(\$180,871)</u>	<u>(\$270,407)</u>
Net Plant	\$366,366	\$332,744
Additions to Rate Base		
Cash Working Capital	\$5,348	\$9,064
Adjustments to Rate Base Allocations	\$31	\$34
Net Pro Forma Plant	\$7,196	\$850,624
Deductions from Rate Base		
Contributions in Aid of Construction	(\$106,694)	(\$166,245)
Accumulated Deferred Income Taxes	(\$20,046)	(\$22,607)
Customer Deposits	<u>(\$1)</u>	<u>(\$2)</u>
Rate Base	<u>\$252,201</u>	<u>\$1,003,611</u>

Finally, Staff recommended that the Commission include the following provision in this Order:

IT IS FURTHER ORDERED that the \$521,934 original cost of the sewer plant in service for the Company at December 31, 2008, as reflected on the Company's Schedule C, column "Per Books," is unconditionally approved as the sewer original costs of plant.

IT IS FURTHER ORDERED that the \$539,283 original cost of the water plant in service for the Company at December 31, 2008, as reflected on the Company's Schedule C, column "Per Books," is unconditionally approved as the water original costs of plant.

### III. OPERATING REVENUES, EXPENSES, AND OPERATING INCOME

In its direct testimony, the Company asserted that its *pro forma* operating revenues, expenses and income for the test year ended December 31, 2008 are as follow:

#### **Sewer**

Operating Revenue:	\$250,065
Operating Expense:	\$157,433
Net Operating Income:	\$92,632
Revenue Change:	\$195,882

#### **Water**

Operating Revenue:	\$103,603
Operating Expense:	\$79,766
Net Operating Income:	\$23,837
Revenue Change:	\$62,907

Staff proposed various adjustments to Northern Hills' *pro forma* operating statements. Staff's adjustments are identified below and are reflected in Appendix A - Water and Appendix B - Sewer:

- (a) An adjustment to disallow increases to expenses based on an inflation factor, which is not appropriate pursuant to 83 Ill. Adm. Code 287.40.
- (b) An adjustment to remove the Gross Revenue tax (also known as the Public Utility Fund tax) from the Company's revenue requirement, because it is not an actual operating expense of the utility and should not be included in tariffed rates. Staff recommended that the Company collect the tax as a separate charge on customers' bills when the rates approved in this Docket go into effect.
- (c) Adjustments to rate case expenses to remove costs for a consultant who did not file testimony, remove overlapping costs for WSC employees, reflect a five-year amortization period rather than the three-year period proposed by the Company, and reflect actual miscellaneous costs incurred plus an estimate of miscellaneous costs to complete the case.
- (d) An adjustment to correct the amount of WSC expenses allocated to Northern Hills.

- (e) An adjustment to Operations and Customer Service Employee Expenses to reflect known and measurable changes to salaries, payroll taxes and benefits subsequent to the test year, and include a correction to the allocation factors for certain employees.
- (f) An adjustment to Corporate Employee Expenses to reflect known and measurable changes to salaries, payroll taxes, and benefits subsequent to the test year and to remove expenses for employees who left the Company subsequent to the test year.
- (g) An adjustment to income taxes for interest synchronization.
- (h) Adjustments based on the gross revenue conversion factor.

The Commission finds that the adjustments to operating revenues, expenses (including taxes), and utility operating income, as proposed in Staff's exhibits, are supported by the evidence, are reasonable, and should be adopted. In addition, the Commission finds that the amounts of compensation for attorneys and technical experts to prepare and litigate this proceeding, as adjusted by Staff, are just and reasonable pursuant to Section 9-229 of the Act (220 ILCS 5/9-229).

Upon giving effect to these adjustments, the Commission concludes that the Company's *pro forma* operating revenues, expenses and income, at the approved rates, for the test year ended December 31, 2008, are as follows and are attached in Appendix A - Water and Appendix B - Sewer, hereto:

#### **Sewer**

Operating Revenues	\$212,414
Operating Expenses	<u>\$134,233</u>
Utility Operating Income	\$78,181
Revenue Change	\$157,915

#### **Water**

Operating Revenues	\$83,910
Operating Expenses	<u>\$64,263</u>
Utility Operating Income	\$19,647
Revenue Change	\$42,946

Finally, Staff recommended that the Company establish written procedures that identify the actions to be taken to check the accuracy of the ERC values that provide the basis for the allocation methodology described in the Service Agreement between the Illinois companies owned by Utilities, Inc. and Water Service Corporation ("WSC"), which was approved by the Commission in Docket 08-0335. All WSC costs that cannot

be identified and related to services rendered to a particular operating company are allocated on the basis of an operating company's ERCs, compared to all operating companies' ERCs. It is important, therefore, that the ERC values be accurate.

#### **IV. RATE OF RETURN**

##### **A. Capital Structure**

Because the Company is a wholly owned subsidiary of Utilities, Inc., Staff proposed using Utilities, Inc.'s capital structure for the year ending December 31, 2008. The capital structure is summarized below:

<u>Component</u>	<u>Ratio</u>
Short term debt	6.24%
Long term debt	49.81%
Common Equity	43.96%
Total	<u>100.00%</u>

##### **B. Embedded Cost of Debt**

Staff estimated that the Company's cost of short-term debt is 2.64%. The Company's embedded cost of long-term debt is 6.65%.

##### **C. Cost of Common Equity**

Staff recommended a 9.82% cost of common equity for Northern Hills. Staff measured the investor-required rate of return for UI with the discounted cash flow ("DCF") and risk premium models. DCF and risk premium models cannot be directly applied to UI because its stock is not market-traded. Therefore, Staff applied those models to water utility and public utility samples deemed comparable in risk to Northern Hills.

##### **1. DCF Analysis**

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments to the holders of that stock. Since a DCF model incorporates time-sensitive valuation factors, it must correctly reflect the timing of the dividend payments that a stock price embodies. The companies in Staff's water and utility samples pay dividends quarterly. Staff therefore employed a multi-stage, non-constant-growth DCF model that reflects a quarterly frequency in dividend payments.

Staff modeled three stages of dividend growth. The first near-term growth stage is assumed to last five years. The second stage is a transitional growth period lasting

from the end of the fifth year to the end of the tenth year. The third, or "steady-state" growth rate, is assumed to begin after the tenth year and continue into perpetuity.

For the first stage, Staff used market-consensus expected growth rates published by Zacks as of February 2, 2010. To estimate the long-term growth expectations for the third, steady-state stage, Staff used the implied 20-year forward U.S. Treasury rate in ten years, 5.05%. (Staff Ex. 3.0 at 12-13). The growth rate employed in the intervening, five-year transitional stage equals the average of the Zacks growth rate and the steady-state growth rate. (*Id.* at 14). The growth rate estimates were combined with the closing stock prices and dividend data as of February 2, 2010. Based on these growth assumptions, stock price, and dividend data, Staff's DCF estimate of the cost of common equity was 9.61% for the water sample and 10.83% for the utility sample.

## **2. Risk Premium Analysis**

According to financial theory, the required rate of return for a given security equals the risk-free rate of return, plus a risk premium associated with that security. Staff used a one-factor risk premium model, the Capital Asset Pricing Model ("CAPM"), to estimate the cost of common equity.

The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market. For the beta parameter, Staff combined adjusted betas from Value Line, Zacks, and a regression analysis to estimate the beta of the water and utility sample. For the water sample, the average Value Line, Zacks, and regression beta estimates were 0.70, 0.60, and 0.55, respectively. For the utility sample, the average Value Line, Zacks, and regression beta estimates were 0.69, 0.63, and 0.57, respectively. The Value Line regression employs weekly observations of stock return data, while both the regression beta and Zacks' betas employ monthly observations. Since the Zacks' beta estimate and the regression beta estimate are calculated using monthly, rather than weekly, data (as Value Line uses), Staff averaged those results to avoid over-weighting betas estimated from monthly data in comparison to the weekly data-derived Value Line betas. Staff then averaged the resulting monthly beta with the Value Line weekly beta, which produced a beta of 0.64 for the water sample and 0.64 for the utility sample. (*Id.* at 26-28).

For the risk-free rate parameter, Staff considered the 0.04% yield on four-week U.S. Treasury bills and the 4.60% yield on thirty-year U.S. Treasury bonds. Both estimates were measured as of February 2, 2010. Forecasts of long-term inflation and the real risk-free rate imply that the long-term risk-free rate is between 4.3% and 5.0%. Staff concluded that the U.S. T-bond yield is currently the superior proxy for the long-term risk-free rate. (*Id.* at 20-22).

Finally, for the expected rate of return on the market parameter, Staff conducted a DCF analysis on the firms composing the S&P 500 Index. That analysis estimated that the expected rate of return on the market was 12.12% for the fourth quarter of 2009. (*Id.* at 22-23). Inputting those three parameters into the CAPM, Staff calculated



a cost of common equity estimate of 9.41% for both the water sample and the utility sample. (*Id.* at 28).

To assess whether the cost of common equity had significantly changed since Staff performed the cost of common equity analyses presented in Dockets 09-0548 and 09-0549 (Cons.), 10-0110 and 10-0280, Staff updated those analyses to reflect market data from June 9, 2010. The updated investor required rate of return on common equity for Petitioner was 9.60%. Since the updated cost of common equity differed only 22 basis points from the original cost of common equity, Staff recommended that the Commission authorize the same 9.82% cost of common equity for Petitioner that Staff recommended for its sister companies in Dockets 09-0548 and 09-0549 (Cons.), 10-0110 and 10-0280. (*Id.* at 30-31).

### **3. Staff Cost of Equity Recommendation**

Staff estimated the investor-required rate of return on common equity for the water sample of 9.51% by taking the simple average of the DCF-derived results (9.61%) and the risk-premium derived results (9.41%) for the water sample. Staff estimated the investor-required rate of return on common equity for the utility sample of 10.12% by taking the simple average of the DCF-derived results (10.83%) and the risk-premium derived results (9.41%) for the utility sample. The investor required rate of return on common equity for Northern Hills, 9.82%, is based on the average for the water and utility samples. (*Id.* at 30).

### **D. Commission Analysis and Conclusions**

Based on the evidence presented, the Commission concludes the Company's cost of equity capital is 9.82% and its overall cost of capital is 7.79% as proposed in Staff's exhibits. (*Id.* at 31).

The cost of capital is summarized as follows:

<u>Source of capital</u>	<u>Amount</u>	<u>Percentage</u>	<u>Cost</u>	<u>Weighted Cost</u>
Short-term debt	\$22,380,391	6.24%	2.64%	0.16%
Long-term debt	\$178,726,842	49.81%	6.65%	3.31%
Common Equity	<u>\$157,737,014</u>	<u>43.96%</u>	<u>9.82%</u>	<u>4.32%</u>
Total	\$358,844,247	100.00%		7.79%

## **V. RATE DESIGN/TARIFF TERMS**

### **A. Miscellaneous Fees and Charges**

The proposed tariff sheets the Company submitted with its initial filing, rebuttal and surrebuttal testimonies reflect a rate design that reflects an across-the-board, equal percentage increase to current water rates. In the absence of new information to justify

a different rate structure, Staff recommended the new rates be set based upon the current rates, using an across-the-board increase as was done by the Company. For sewer rates, Staff accepted the current flat fee rate structure utilized by the Company. The resulting water and sewer rates of Staff's revised revenue requirement were provided in ICC Staff Exhibit 8.0R, Schedules 8.1 and 8.2.

Staff's proposed sewer rate design included a separate sewer rate for customers using less than 1,000 gallons of water in a billing period, which was based upon the Company's proposed discount methodology and incorporated Staff's revised revenue requirement. Staff recommended that the Commission approve its proposed low usage rate for the Company to comply with the requirement of Section 8-306(h) of the Act to establish a sewer rate applicable to customers who use less than 1,000 gallons of water in any billing period.

Staff also recommended that the Company propose rates that comply with Section 8-306(i) of the Act, which would enable customers to avoid paying sewer charges based on the water usage that does not reach the sewer system. In its supplemental surrebuttal testimony, the Company explained that under the current flat rate design, Northern Hills' sewer customers do not incur charges associated with water usage that does not reach the sewer system. Thus, separate meters for sewer and water use would impose significant costs on the customer, which would not be offset by a comparable reduction in the customer's sewer bill. The Company agreed to revisit this issue in its next rate relief request. (NH Ex. 4.0 at 2). The Commission finds the development and design of the rates, as recommended by Staff, to be reasonable and should be accepted.

## **B. Miscellaneous Fees and Charges**

### **1. After-Hours Call-Out Charge**

The Company proposed to establish an After-Hours Call-Out charge as described in Section 4C of the Company Rules, Regulations and Conditions of Service. The Company proposed a minimum rate to be equal to two hours of current labor rate, or \$106. For all time accumulated above the two-hour minimum, the Company proposed to bill customers at the rate of \$53 per hour. In response to a Staff data request, the Company documented the average operator overtime costs, customer service costs to process the overtime request, and round-trip mileage to premises. Furthermore, in response to the Staff data request, the Company stated that such a minimum charge would act as a deterrent in instances when a customer calls and requests service to an issue that can be otherwise handled during normal business hours. Mr. Boggs stated that the Company had demonstrated that the charge is reasonable and recommended approving the After-Hours Call-Out charge. (Staff Ex. 4.0 at 17).

## **2. Reconnection Charge**

The Company proposed to increase its reconnection charge from \$20 to \$37.50 to recover the current average cost of labor for one hour of employee time to provide the reconnection service. Based on a review of the data provided by the Company, Mr. Boggs determined that the proposed increase is reasonable and recommended that it be approved. (*Id.* at 16).

## **3. Non-Sufficient Funds Charge**

The Company proposed to increase the Non-Sufficient Funds (NSF) Check charge from \$10 to \$25. In his direct testimony, Mr. Boggs stated that, based on the information provided, the \$25 NSF charge proposed by the Company is reasonable and should be approved. (*Id.* at 13-15).

## **4. New Customer Charge**

The Company proposed to increase the charge for a new service application from \$15 to \$25. Based on a review of the data provided by the Company, Mr. Boggs determined that the proposed increase is reasonable and recommended that the increase be approved. (*Id.* at 15).

The Commission finds the rate design principles and cost-of-service methodologies proposed in Staff's testimony, and the development and design of the rates in the manner proposed by Staff to be reasonable. We conclude that they should be adopted.

The Commission concludes that Staff's proposed rates are reasonable and should be approved for Northern Hills. The Company is directed to file the rates set forth in this Section. The filed tariffs should have an effective date of not less than five (5) business days after the date of filing with the office of the Clerk of the Commission, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period, if necessary.

## **VI. FINDINGS AND ORDERING PARAGRAPHS**

The Commission, having given due consideration to the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Northern Hills Water and Sewer Company provides water and sewer service within the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over the Company and the subject matter herein;

- (3) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by the evidence and are hereby adopted as findings of fact;
- (4) a test year ending December 31, 2008 should be adopted for the purpose of this rate proceeding;
- (5) for the test year ending December 31, 2008 and for the purposes of this proceeding, the Company's water rate base is \$252,201; the Company's sewer rate base is \$1,003,611;
- (6) a fair and reasonable rate of return on the Company's rate base is 7.795%; this rate of return reflects a fair and reasonable return on common equity of 9.82%; rates should be set to allow the Company an opportunity to earn that rate of return on its rate base, as determined herein;
- (7) Staff's recommendations with respect to the rate design in this docket should be adopted;
- (8) the Company's rates, which are presently in effect, are insufficient to generate the operating income necessary to permit the Company to earn a fair and reasonable rate of return and those rates should be permanently canceled and annulled as of the effective date of the new tariff allowed in this Order;
- (9) the rates proposed by the Company in this proceeding would produce rates in excess of that which is fair and reasonable; the Company's proposed rates should be rejected and the design of the rates in the manner proposed by Staff is reasonable and should be adopted;
- (10) the Company should be permitted to file new tariff sheets setting forth the rates designed to produce annual water operating revenues of \$83,910 and sewer operating revenues of \$212,414; revenues will provide the Company an opportunity to produce sufficient utility operating income to provide a return on the Company's rate base of 7.79% consistent with the findings herein;
- (11) Staff's proposed rates contained in Section VII are designed in accordance with the rate design determinations made in the prefatory portion of this Order above; the Company should be authorized to file new tariffs setting forth the rates and charges contained in Section VII, effective for all service rendered on and after five (5) business days after filing;

- (12) the proposed water and sewer depreciation rates proposed by Staff (identified in Staff Ex. 5.0, Schedules 5.1 and 5.2) and agreed upon by the Company are approved;
- (13) the Petitioner shall confer with Staff within six months of the date of the Final Order in Docket No. 10-0110 (Whispering Hills Company) regarding the best way to implement new depreciation rates;
- (14) Northern Hills Water and Sewer Company shall establish written procedures to check the accuracy of the ERC values that provide the basis for the allocation of WSC costs that cannot be identified and related to services rendered to a particular Utilities, Inc. company;
- (15) the Company shall otherwise perform all actions required by this Order.

IT IS THEREFORE ORDERED by the Commission that the tariff sheets proposing a general increase in water and sewer rates filed by Northern Hills Water and Sewer Company on March 15, 2010 be, and the same are hereby, permanently canceled and annulled.

IT IS FURTHER ORDERED that the Company file new rate tariffs within five (5) business days of the Order, with an effective date of not less than five (5) business days after the date of filing, except as otherwise authorized by Section 9-201(b) of the Act amended, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period if necessary. The rates will be in accordance with Findings and Ordering Paragraph (11) and Section VII herein. Said new tariff sheets shall cancel Ill. C. C. No. 1, Fifth Revised Sheet No. 1, and Ill. C. C. No. 2, Fifth Revised Sheet No. 1, in their entirety, with the cancellation date being the same as with the effective date of the new rate tariffs.

IT IS FURTHER ORDERED that the \$521,934 original cost of the sewer plant in service for the Company at December 31, 2008, as reflected on the Company's Schedule C, column "Per Books," is unconditionally approved as the sewer original costs of plant.

IT IS FURTHER ORDERED that the \$539,283 original cost of the water plant in service for the Company at December 31, 2008, as reflected on the Company's Schedule C, column "Per Books," is unconditionally approved as the water original costs of plant.

IT IS FURTHER ORDERED that Northern Hills Water and Sewer Company must establish written procedures to check the accuracy of the ERC values that provide the basis for the allocation of WSC costs that cannot be identified and related to services rendered to a particular Utilities, Inc. company.

IT IS FURTHER ORDERED that any petitions, objections or motions made in this proceeding, and not otherwise specifically disposed of herein, are hereby disposed of in a manner consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Sec. 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 20th day of January, 2011.

(SIGNED) MANUEL FLORES

Acting Chairman